

MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
AUDIT & COMPLIANCE COMMITTEE

August 11, 2009

The Chair of the Committee, Dennis D. Golden, O.D., convened the meeting of the Audit & Compliance Committee of the University of Houston System Board of Regents, at 12:34 p.m., in the Athletics/Alumni Center, Melcher Board Room 100B, University of Houston, 3100 Cullen Boulevard, Houston, Texas, on Tuesday, August 11, 2009, with the following members present: Jacob M. Monty, Nelda Luce Blair, and Welcome W. Wilson, Sr., Ex Officio. Regent Calvin Stephens attended the meeting as a non-member.

Regent Golden stated there would be seven items presented to the committee – three requiring approval and four for information only. Regent Golden turned the meeting over to Mr. Don Guyton, Chief Audit Executive, who presented these items before the committee.

Mr. Guyton stated there were two open points from the April 14, 2009 Audit and Compliance Committee meeting: (1) provide an explanation of the KUHT liability to UHS; and (2) provide a report on the UHS support organizations. The report on UHS support organizations had been included in the agenda materials presented at this meeting; and the KUHT liability to UHS was that KUHT's expenditures had exceeded its collections. Part of this liability would be paid by collections of receivables and other items. Mr. Guyton then moved to the agenda items to be presented:

Action Items:

1. UHS Internal Auditing Department Long-Range Internal Audit Plan for Fiscal Years 2010-2012 – UH System

The final draft of the Long-Range Internal Audit Plan for Fiscal Years 2010-2012 was presented for review and approval. The resource and budget information and the audit team members were introduced by Mr. Guyton to the committee members. The plan contained a risk assessment for all UH System components. Risk assessment techniques had been employed to identify auditable areas and to ensure that the accounting systems and controls, the administrative systems and controls, and other major systems and controls were reviewed on a periodic basis. In the executive summary, the higher risk areas from the risk analysis were listed and whether or not they had been scheduled for review in the three year plan. Audits of these higher risk areas should help mitigate some of the risk. A separate risk analysis had also been prepared for each campus and input was received from key personnel throughout the entire UH System, including the chancellor and the chair of the audit and compliance committee.

According to Texas Government Code, Section 2101, the Board of Regents are required to review and approve the Audit Plan and to periodically review the resources dedicated

to the Internal Audit Program and determine if adequate resources exist to ensure that the risks identified in the annual risk assessment were adequately covered within a reasonable timeframe. It was determined that the resources dedicated to the Internal Audit Program were adequate.

Regent Blair moved committee approval of this item. Regent Wilson seconded the motion and all members concurred. This item will be presented to the Board for final approval at the August 18, 2009 Board of Regents meeting.

2. Audit and Compliance Committee Planner – UH System

Approval was requested by the committee to approve the Audit and Compliance Committee Planner for the upcoming 2009-2010 academic year. There were minor changes to the planner from a year ago which related to the Board of Regents policies for conflicts of interest and identity theft.

Regent Blair moved committee approval of this item. Regent Wilson seconded the motion and all members concurred. This item required committee approval only.

3. Audit and Compliance Committee Charter and Checklist – UH System

Approval was requested by the committee to approve the Audit and Compliance Committee Charter and Checklist which were the recommended guidelines for the operation of the Audit and Compliance Committee. The same changes noted in the Audit and Compliance Committee Planner were also noted here and the item that had been included in the Audit Committee Planner for the Annual Fraud Prevention and Awareness Report.

Regent Blair moved committee approval of this item. Regent Wilson seconded the motion and all members concurred. This item will be presented to the Board for final approval at the August 18, 2009 Board of Regents meeting.

The following four items were presented for information only and required no action the committee:

1. Institutional Compliance Status Report for the Four Months Ended June 30, 2009, and Annual Compliance Plan for FY2010 – UH System

Mr. Guyton presented this item and stated the report included risk assessments, compliance audits, compliance committee meetings, risk mitigation, and hot-line reports.

2. Internal Audit Report – Briefing Booklet – UH System

Mr. Guyton stated that since the April Audit and Compliance Committee meeting, six internal audit reports and one special project report were outlined in this booklet. The special project report identified was addressed later in the meeting. The executive summaries addressed areas that had been included in the Board-approved Audit Plan for FY 2008 and 2009 and included a review of the UHS Facilities Development Projects for the Texas Higher Education Coordinating Board; a review of cash handling at various locations; a NCAA rules compliance review of UH Athletics; an IT Audit Activity Report;

and a status report on Audit's follow-up activity. All of these reports will be submitted to the Governor's Office of Budget and Planning, the Legislative Budget Board, the Sunset Advisory Committee, and the State Auditor, as required by the Texas Government Code. Some of these reports contained management action plans and were included in the Briefing Booklet, as well as an overview of all of the recommendations made by Internal Auditing.

Mr. Guyton stated that their follow-up report, Audit Report No. 2009-21, addressed the status of 107 action items in 20 individual audit reports. Audit had verified that 65 of the action items had been implemented and 42 had been partially implemented. Updated management responses had been obtained on the action items that were partially implemented. The remaining three high risk areas are supposed to be implemented in October 2009 and January 2010.

Audit Report No. 2009-22, on the UHS Facilities Development Projects, noted some significant deficiencies in management oversight of construction projects and repair and renovation projects. Auditing had tested for compliance with the Coordinating Board's rules and found a number of instances of non-compliance where approvals of the Board of Regents and the Coordinating Board had not been obtained. Auditing recommended that policies and procedures be implemented to help ensure compliance. This report was presented to the Coordinating Board in June 2009. Mr. Guyton stated there were no significant issues raised in the other reports.

The State Auditor's Office is currently planning its fieldwork for the FY2009 statewide audit. Mr. Guyton mentioned that various construction auditors have been engaged by Facilities, Planning and Construction (FP&C) for the various construction projects in progress and Internal Auditing will coordinate this effort with them. The Financial Reporting Department will issue an RFP for audit services this month (August) for five attest engagements (radio, TV, endowment, athletics, and Charter School).

3. Support Organizations Report – UH System

This report is a compilation of information from audited financial statements, IRS Forms 990, investment reports, and other information furnished to the UH System by the support organizations. The purpose of this report was to provide information on the support organizations' activities and the Board of Regents' and UH System's responsibilities with respect to the foundations. To Mr. Guyton's knowledge, this was the first time such a compilation had been attempted.

Mr. Guyton stated that even though the regents do not have an independent fiduciary duty to independent support organizations, their existing fiduciary duty extends by agreement to the policies controlling the funds and activities of these organizations. In meeting the requirements of the Board of Regents policy on support organizations, the UH System had implemented a policy on support organizations which requires them to furnish certain information to the UH System and has been spelled out in our agreements with the support organizations. The status of the receipt of this information was compiled in a report which showed the dates these agreements were last updated. It was also noted that

two of the organizations listed on this report had yearends that did not coincide with the UH System's yearend. It was noted that having all of the support organizations with the same yearends would facilitate management's review of annual information furnished by these organizations to the UH System and Internal Audit's review and comparison of financial statements and tax returns to the corresponding information on the university's books and records.

4. Internal Audit Special Project Report – UHS Job Order Contracts – UH System

This Special Project Report had been initiated by a contractor who had complained about the process of awarding contracts for work. At management's request, Internal Auditing not only reviewed the specific contractor's assertions, but also reviewed the entire process. Several instances of non-compliance with the Texas Education Code and Administrative Code as they relate to construction were noted. Internal Auditing recommended FP&C implement policies and procedures to help prevent these situations from occurring in the future.

There being no further business to come before the committee, the meeting adjourned at 1:45 p.m.

All documentation submitted to the Committee in support of the foregoing action items, including but not limited to "Passed" agenda items and supporting documentation presented to the Committee, is incorporated herein and made a part of these minutes for all purposes; however, this does not constitute a waiver of any privileges contained herein.

Others Present:

Carl Carlucci
John Antel
Dona Cornell
Grover Campbell
Michael Rierson
Barbara Stanley
Elaine Pearson
Brandy Walker
Jon Aldrich

Ed Hugetz
David Ellis
Judy Young
Tony Marino
Lisa Berry
Raymond Bartlett
Eli Cipriano
David Bradley
Marquette Hobbs

Russ Hoskins
Craig Ness
Dan Wells
Jennifer Watson
Mark Weinberg
Jim Blair
Molly Woods
Kauisha Smith
Gerry Mathisen